P.Q 2 (a)
SOLUTION

		Rs. in million	Marking Plan
Investment: Shares (27 x 3/5 x 20)		324.0	0.5
deferred consideration (100 x 0.797)		79.7	0.5
		403.7	0.5
Share capital	300		0.5
Reserve	25		0.5
Fair value adjustment:			
Deferred tax asset (25x0.35)	8.75		0.5
Plant	5		0.5
	338.75		
Parent's share (338.75 x 0.9)		(304.875)	0.5
Goodwill		98.825	1.0
			5.0

P.Q. 2 (b)

Solution

Alpha Group

Consolidated statement of comprehensive income for the year ended March 31, 2009

		Rs.'000'	Marking Plan
Sales	(5000 + 2910 x 6/12 - 360 intra-group sales)	6,095	1.5
Cost of goods sold	[000+2120 x 6/12 - 360 intra-group sales + 10 (W-1) + 5 (W-2)]	(3,715)	2.5
Gross profit	(2000 +395 - 5 - 10)	2,380	
Administrative expenses	(1000 + 150 x 6/12)	(1,075)	1.0
Selling and distribution expenses	(650 + 180 x 6/12)	(740)	1.0
Operating profit		565	
Other income	(230 - 45 Intra group income)	185	1.0
Financial charges	[50 + 82.5(210-45) x 6/12]	(132.5)	1.5
Profit/(loss) before taxation		617.5	
Taxation	(300 + 70 x 6/12)	(335)	1.0
Profit/(loss) after taxation		282.5	1.0
Profit attributable to owners of the parent		264.125	0.5
Non-controlling interest		18.375	0.5
		282.5	

Computation of Net profit attributable to NCI:

Net profit after tax of sub.	180	
Add post acquisition interest	45	0.5
	225	
Post acquisition net profit (225 x 6/12)	112.5	0.5
Less post acquisition interest	(45)	0.5
	67.5	
NCI share of profit (67.5 x 0.35)	23.625	0.5
Less: UP (60 x 20/120 x 0.35)	(3.5)	0.5
FV adjustment: Depreciation (200/20 x 6/12 x 0.35)	(1.75)	0.5
	18.375	0.5
		15

Working:

W-1 Unrealized profit $\left(60{,}000 x \frac{20}{120}\right)$ Rs.10,000

W-2 FV adjustment : Deprecation $\left(200{,}000 x \frac{6}{12} x \frac{1}{20}\right)$ Rs.5,000

P.Q 3

PAKISTAN PRODUCTS LIMITED STATEMENT OF CASH FLOWS For the year ended June 30, 2009	(Rs.'000')	(Rs.'000')	Marking Plan
Cash flows from Operating Activities:			
Net profit before taxation ***(WN-5)***	330		0.5
Add: Depreciation ***(WN-6)***	400		0.5
Less: Gain on sale of land	(60)		0.5
Add: Loss on sale of equipment ***(WN-1)***	10		0.5
Operating profit before working capital changes	680		
Changes in working capital			
Increase in debtors	(150)		0.5
Decrease in inventory	150		0.5
Decrease in prepaid expenses	15		0.5
Decrease in trade creditors	(150)		0.5
Cash generated from operations	545		
Less: Income tax paid ***(WN-2)***	(135)		0.5
Cash flows from operating activities		410	1.0
Cash flows from Investing Activities:			
Sale of equipment	40		0.5
Sale of land ***(WN-3)***	360		0.5
Purchase of equipment	(700)		0.5
Cash used in investing activities		(300)	0.5
Cash flows from Financing Activities:			
Issue of shares for cash ***(WN-4)***	150		0.5
Payment of Dividends	(500)		0.5
Net cash used in financing activities		(350)	0.5
Net cash flow during the year		(240)	
Opening balance of cash and cash equivalents		1,100	
Closing balance of cash and cash equivalents		**860**	
		Total Marks	**9.0**

WN-1 - Loss on sale of assets	**(Rs.'000')**	**Marking Plan**
Book value of assets	50	
Less: assets sold for	(40)	
Loss on sale of assets	**10**	0.5

WN-2 - Payment of Tax		
Opening balance - Provision for Taxation	1,100	
Add: Provision for the year	150	
	1,250	
Less: Ending Balance	(1,115)	
Tax paid during the year	**135**	1.0

W-3 - Sale proceeds of land		
Opening balance of land A/c	11,800	
Less: Ending balance of land A/c	(11,500)	
	300	
Add: profit on sale (20%)	60	0.5
Sale proceeds of land	**360**	0.5

WN-4 - Issue of shares for cash		
Ending balance of share capital	19,300	
Less: Opening balance of share capital	19,000	
Total shares issued	300	
Less: Shares issued for redeeming debentures	(150)	0.5
Shares issued for cash	**150**	0.5

WN- 5 - Net Profit before Tax:

Retained Earnings

	Rs.		Rs.	
Dividend paid	500	Opening	5,930	
Tax provision	150	Net profit before tax	330	1.0
Closing	5,610			
	6,260		6,260	

WN-6

Equipment

	Rs.		Rs.	Marking Plan
Opening	6,350	Sale	50	
Addition	700	Depreciation (Bal. Fig)	300	1.0
		Closing	6,700	
	7,050		7,050	

Current Depreciation:	Rs.	
Equipment	300	
Building (7,000 – 6,900)	100	
	400	0.5

P.Q 4(a)
Solution

(i)

		Rs. In million	Marking Plan
Data:	Contract price(at beginning)	150	
	Total estimated costs (at beginning)	120	
	Additional revenue due to variation in the contract	35	
	Additional costs due to variation in the contract	25	
	Materials for next year use	7	
	Costs to date (December 31, 2009)	65	
	Stage of completion:		
	Cost to date (65 – 7)	58	0.5
	Latest estimated total cost (120 + 25)	145	0.5
	Stage of completion (58 ÷ 145) x 100	40%	1.0
	Revenue for the year 2009 (185 x 0.4)	74	1.0
	Costs for the year 2009 (145 x 0.4)	58	1.0
	Gross Profit	**16**	

(ii)

Cost to date	58	0.5
Add recognised revenue	16	0.5
Less progress billings	(70)	0.5
Amount due from/ to customer	4	0.5
Trade receivable (70 – 65)	5	1.0
Total Marks		**7.0**

PQ. 4 (b)

Solution

			Rs.	Marking Plan
1	No. of shares	15,000,000 ÷ 10	1,500,000	
	Basic EPS	(2,500,000 ÷ 1,500,000)	1.67	2.0
2	15% Loan:			
	Additional Earnings	(2,000,000 x 0.15 x 0.65)	195,000	1.0
	Additional shares	(2,000,000 x 1/20)	100,000	0.5
	Incremental EPS	(195,000 ÷ 100,000)	1.95	0.5
3	12% Loan:			
	Additional earning	(3000000 x 0.12 x 0.65)	234,000	1.0
	Additional shares	(3000000 x 1/15)	200,000	0.5
	Incremental EPS	(234,000 ÷ 200,000)	1.17	0.5
4	12% Loan is dilutive			
5	Diluted EPS = $\frac{2,500,000 + 234,000}{1,500,000 + 200,000}$	$= \frac{2,734,000}{1,700,000}$	1.61	2.0
			Total Marks	**8.0**

Note:

12% loan is dilutive. Only this loan will be considered in the computation of Dilutive EPS.

P.Q 5(a)

	Marking Plan
(i) Revenue shall be recognized on the following bases:-	
a) Royalties should be recognized on accrual basis in accordance with the substance of the relevant agreement; and	1.0
b) Dividend shall be recognized when the shareholder's right to receive payment is established.	1.0
(ii) An entity shall disclose:-	
	1.0
a) The accounting policies adopted for the recognition of revenue, including the methods adopted to determine the stage of completion of transactions involving the rendering of services;	
b) The amount of each significant category of revenue recognized during the period including revenue arising from: - The sale of goods, - The rendering of services - Interest - Royalties - Dividends; and	2.0
c) The amount of revenue arising from exchange of goods or services included in each significant category of revenue.	1.0
	6.0

P.Q. 5(b)

(i) A foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amounts the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

[2 marks]

(ii) When there's a change in an entity's functional currency, the entity shall apply the translation procedure applicable to the new functional currency prospectively from the date of the change.

[2 marks]

P.Q 5(c)

Long-life Insurance Corporation
Revenue Account
For the year ended December 31, 2009.

	Rs.	Marking Plan
Income		
Premium net of reinsurance (434950-81500 + 23000)	376,450	1.0
Investment Income	198,500	1.0
Net Income	**574,950**	
Claims and expenditure		
Claims net of reinsuracne recoveries (212200 - 73900)	138,300	2.0
Operating expenses (114200 + 43000)	157,200	1.0
Total claims and expenses	**295,500**	
Excess of Income over claims and expenses	**279,450**	1.0
Change in policyholder's liabilities (345000 - 441000)	(96,000)	2.0
Surplus / (deficit)	**183,450**	2.0
		10.0

P.Q 6 (a)

(i) When an economy ceases to be hyperinflationary and the entity discontinues the preparation and presentation of financial statements prepared in accordance with this Standard, **[01 mark]**

(ii) it shall treat the amounts expressed in the measuring unit current at the end of the previous reporting period as the basis for the carrying amounts in its subsequent financial statements. **[01 mark]**

(iii) The following disclosures are to be made:-

- The fact that the financial statements and the corresponding figures for previous periods have been restated for the changes in the general purchasing power of the functional currency and, as a result, are stated in terms of the measuring unit current at the end of the reporting period. **[01 marks]**

- Whether the financial statements are based on a historical cost approach or a current cost approach; and **[01 marks]**

- The identity and level of the price index at the end of the reporting period and the movement in the index during the current and the previous reporting period. **[01 marks]**

P.Q. 6(b)

SOLUTION

Working:

	Rs.	Marking Plan
Amount paid on January 1, 2009	250,000	
Amount paid on January 1, 2010-13 (100,000 x 4)	400,000	
	650,000	
Rental income to be recognised in the income statement (650000 ÷ 5)	130,000	2.0

Working: *(Rs. in Thousands)*

Year	Cash Received	Income Claimed	Difference	Cumulative Difference
2009	250	130	120	120
2010	100	130	(30)	90
2011	100	130	(30)	60

Income Statement (Extract):

	2009	2010	
Rental receivable	130,000	130,000	0.5 + 0.5
Depreciation	55,000	55,000	0.5 + 0.5

Statement of Financial Position (Extract)

	2009	2010	
Non-current assets:			
Asset held for use in operating leases (cost)	550,000	550,000	
Depreciation	(55,000)	(110,000)	
	495,000	440,000	1.0 + 1.0
Non-current Liabilities:			
Deferred income	90,000	60,000	1.0 + 1.0
Current liabilities:			
Deferred income	30,000	30,000	1.0 + 1.0
			10.0

P.Q 6 (c)

SOLUTION

	Rs.	Marking Plan
Interest @ 5% on Rs.6,000,000	300,000	
Total interest payable (300,000 x 4)	1,200,000	
PV of Total interest (3.169 x 300,000)	950,700	
PV of principal (6,000,000 x 0.683)	4,098,000	
PV of liability component	5,048,700	1.0
	6,000,000	
So equity component	951,300	1.0
At December 31, 2013:		
Equity	951,300	1.0
Liability (Note 1)	6,000,000	
	6,951,300	
To Share Capital Account		
(Conversion of debt @ 10/30 x 6,000,000)	2,000,000	1.0
To Share premium (6,951,300 – 2,000,000)	4,951,300	1.0
		5.0

Note1: Debt component i.e., Rs.5,048,700 shall be kept at amortised cost until 2012. That is at the end of each year beginning from 2009, closing balance of the debt shall be increased by 10% and reduced by the interest payable thereon (Rs.300,000), so that at the end of 2012, debt component will increase to Rs.6,000,000.